

Message Text

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51 41

ACTION TRSE-00

INFO OCT-01 ARA-11 EUR-25 EA-11 ADP-00 AID-20 CEA-02

CIAE-00 COME-00 EB-11 FRB-02 INR-10 IO-12 NEA-10

NSAE-00 RSC-01 OPIC-12 CIEP-02 LAB-06 SIL-01 SAL-01

OMB-01 AF-10 L-03 SS-15 NSC-10 STR-08 RSR-01 /186 W

----- 116591

R 051159 Z APR 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 8952

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY BRASILIA

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

USMISSION EC BRUSSELS UNN

C O N F I D E N T I A L PARIS 9494

E. O. 11652: GDS

TAGS: EFIN, IMF

SUBJECT: MEETING OF TECHNICAL GROUP OF C-20 ON DISEQUILIBRATING
CAPITAL FLOWS

PASS TREASURY FOR DEPUTY UNDER SECRETARY BENNETT AND FEDERAL
RESERVE FOR BRYANT

PARIS ALSO FOR USOECD

1. GROUP OF 18 PARTICIPANTS MET APRIL 3-4. INDIA AND MIDDLE
EAST NOT REPEAT NOT REPRESENTED. ON SOURCES OF FLOWS, INFORMATION
ON RECENT MOVEMENTS WAS EXCHANGED. CHAIRMAN REQUESTED PAPERS
FROM
US AND A NUMBER OF OTHER COUNTRIES REVIEWING AMOUNT AND COMPOSI-
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TION OF FLOWS DURING NINE MARKET CRISES SINCE NOVEMBER 1967, WITH DATA AND COMMENTS ON INTEREST- INDUCED FLOWS AND ON SHIFTS OF OFFICIAL RESERVES WHERE RELEVANT.

2. DISCUSSION OF CONTROL MEASURES FOUND FRENCH, EC REP AND CHAIRMAN MORSE PRESSING US FOR SOME QUOTE CONCERTATION UNQUOTE WITH EUROPEAN CONTROL SYSTEMS TO ACHIEVE QUOTE ORDERLY UNIVERSAL SYSTEM

UNQUOTE OF FUTURE. US REPS AFFIRMED PRINCIPLE THAT NO COUNTRY SHOULD BE REQUIRED TO ADOPT CONTROLS AND EXPRESSED CONCERN AT EMPHASIS OF SEVERAL EUROPEANS ON CONTROLS. US REPS HAD NO TECHNICAL

PROPOSALS TO PUT FORWARD, AS THEY CONSIDERED QUOTE CONCERTATION UNQUOTE MATTER FOR POLICY OFFICIALS RATHER THAN TECHNICAL GROUP. WIDESPREAD SKEPTICISM APPARENT REGARDING EFFECTIVENESS OF CONTROLS,

ESPECIALLY OVER LEADS AND LAGS, AND SOME STRESSED DESIRABILITY OF STANDBY RATHER THAN CONTINUOUS CONTROLS. EUROPEAN ATTENTION SEEMS

CENTERED ON CONTROLS OF SPECULATIVE FUNDS AT PRESENT RATHER THAN ON INTEREST- SENSITIVE FLOWS. THERE WAS LITTLE DISCUSSION OF WIDER MARGINS, WITH FAVORABLE COMMENTS BY US REPS AND OECD REP. US AND SOME OTHERS REQUESTED TO PREPARE INFORMATION PAPERS ON EXPERIENCE WITH CONTROLS FOR NEXT MEETING.

3. DISCUSSION OF EURO- CURRENCY MARKET BROUGHT OUT STRONG AND UNITED OPPOSITION OF DEVELOPING COUNTRIES TO MEASURES TO CONTROL OR TIGHTEN MARKET. GERMANS STRONGEST PROPONENTS OF ACTION WITH SUPPORT FROM DUTCH, AND FRENCH AND ITALIANS MORE CAUTIOUS. US SUPPORTED STUDY OF RESERVE REQUIREMENTS ON GROUNDS OF UNDULY FAVORABLE COMPETITIVE POSITION OF EURO- BANKS. DEVELOPING COUNTRIES ALSO DEFENDED THEIR DIVERSIFICATION OF RESERVES. IN RESPONSE TO NIGERIAN REQUEST FOR EXEMPTION OF OFFICIAL RESERVES FROM EUROPEAN MEASURES TO DETER CAPITAL INFLOWS, GERMAN REP CITED UK AND US EXPERIENCE AS RESERVE COUNTRIES AS REASON FOR OBJECTING TO OFFICIAL ACQUISITIONS OF DM.

4. FINANCING AND OFFSETTING

BRIEF DISCUSSION, TO BE RESUMED AT NEXT MEETING. MORSE PRESSED ITALIANS TO PUT IN PAPER ON OSSOLA'S IDEAS ON FINANCING. GERMAN REPRESENTATIVE SAID DID NOT REPEAT NOT WANT NEW SYSTEM LIKE PAST ONE THAT MERELY FINANCED INFLOWS OF FUNDS QUOTE PAINLESSLY UNQUOTE US REPS EXPRESSED SYMPATHY, BUT SAID US WOULD NOT REPEAT NOT WANT A

SYSTEM JUST LIKE PAST ONE BUT WITH ADDED FEATURE OF EXCHANGE GUARANTEE ON FINANCING. US REPS ALSO MENTIONED DIFFICULTY OF PROVIDING SPECIAL FINANCING ARRANGEMENTS AT HIGHER RATES FOR FOREIGN
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5. NEXT MEETING OF GROUP FIXED FOR MAY 2-4 WITH ASSIGNED PAPERS TO BE SENT TO CHAIRMAN MORSE IN PARIS TO REACH HIM BY APRIL 27. GROUP ALSO WILL MEET MAY 10-11 IN PARIS TO REVIEW DRAFT OF REPORT TO DEPUTIES.

IRWIN

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TAGS: EFIN, FR, IMF
To: BONN
BRASILIA
BRUSSELS
CANBERRA
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